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Coastal Empire Economic Monitor

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2021

## Coastal Empire Economic Monitor, 2nd Quarter, 2021

Georgia Southern University Center for Business Analytics and Economic Research

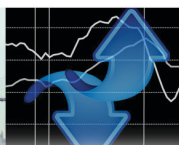
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# Coastal Empire ECONOMIC MONITOR

## ECONOMIC RECOVERY CONTINUES

The Savannah metro area economy surged for the third consecutive quarter through the midpoint of the year. All major indicators of the regional economy increased during the second quarter. Tourism indicators skyrocketed along with consumer confidence. Employment growth was steady and sustainable, while port activity and electricity sales contributed more modestly to regional growth.

The business forecasting index tailed off slightly during the quarter reflecting mixed activity in leading indicators of the regional housing and labor markets. The near-term path of the leading index is less clear given the uncertainty of consumer, business, and government reactions to the delta variant of COVID-19.

Employment growth is expected to moderate during the third quarter but remain positive. Tight labor market conditions will remain the order of the day through the third quarter but may begin to ease toward the end of the year. Regional employment is likely to re-attain pre-pandemic levels by the end of the year.

### Nearing Pre-Pandemic Levels

The business index for the Savannah metro economy increased 3.4% (14.4% annualized) during the second quarter, down from 17% annualized growth in the opening quarter of the year. The index increased to 190.3 from 184 (revised). Tourism substantially lifted the index as airplane boardings (+53%) and hotel room sales (+48%) registered massive one-quarter growth.

Employment in Savannah's three-county metro area gained 1.2% (+2,200 jobs) rising to 188,400. Current employment stands at 99% of the pre-pandemic level in February 2020. Just over 27,000 jobs have been added after the low of 161,000 (revised) recorded in April 2020. The pace of employment growth is expected to slow somewhat in the third quarter likely delaying reattainment of the pre-pandemic level to the fourth quarter of 2021.

In the service sector, business and professional services continued its rapid growth adding another 1,100 workers during the second quarter. Employment in the sector is 28,200 making it the largest component of the regional economy. The tourism and hospitality sector added 700 workers and has now recovered to 92% (with 24,400 workers) of its pre-pandemic level. Logistics added 200 jobs (+1.3%) and stands at 110% of its pre-pandemic level.

On the goods-producing side of the economy, manufacturing added 200 jobs rising to 18,000 workers. This is about 800 jobs shy of the peak recorded in the Fall of 2019 and 94% of its pre-pandemic level in February 2020. As the tourism economy strengthens, additional recovery in manufacturing will accompany it because some businesses such as bakeries and beer breweries are classified as manufacturing firms, but a portion of their sales are clearly tourism-related. Construction employment was generally stable during the quarter with 8,600 workers.

The tourism economy registered substantial gains during the second quarter (even after adjusting for the usual seasonal changes). As noted above, both boardings at the airport and hotel room sales increased by approximately 50% over first quarter activity. Additionally, automobile rentals increased 30%, while alcohol sales increased 6.5%. During the first half

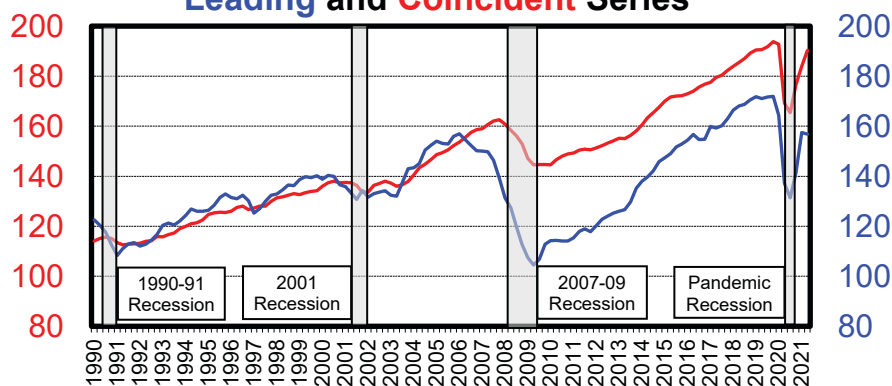
of the year, employment in the sector increased 3.9% and is now 40% higher than in the pandemic-slammed second quarter of 2020. The recent gains in airport activity place it back on trend with growth experienced in the past three years (see chart on next page).

Hourly wages in the private sector increased 1.6% to \$21.72 from \$21.38 in the previous quarter. Continued tightness in the labor market is expected to create upward pressure on wages in the third and fourth quarters. The private sector workweek lengthened by an hour to 34 hours (+3.6%). This is the longest workweek recorded since mid-2017.

### U.S. Growth Is Strong

U.S. economic output (gross domestic product, GDP) registered strong growth of 6.5% in the second quarter, besting first quarter growth of 6.3% but failing to meet expectations reaching well over 8%. Consumer spending charged along with 11.8% growth, even as COVID-relief economic impact payments to households waned during the quarter. Federal government stimulus funding to state and local governments and loans to businesses increased, however. GDP growth underperformed expectations primarily because of a pullback in residential construction (-9.8%) and non-residential construction (-7%). Federal government

## Savannah Metro Business Index Leading and Coincident Series



## U.S. Growth Remains Robust

spending decreased at a pace of -5%, while exports increased at a rate of 6%.

GDP growth through the remainder of 2021 is expected to roughly match pace with second quarter growth. Nationwide economic growth is expected to slow in 2022 to about 3.2%.

Federal Reserve policy remains accommodative even as the economy registers growth that has fully recovered in terms of GDP but with substantial ground to cover toward full employment. The Fed stance on near-zero interest rates and continued purchases of U.S. treasury paper and mortgage-backed securities, at a monthly rate of \$120 billion combined, appear to remain in place. Some Fed-watchers are speculating that a tapering of the purchases may begin toward the end of the year as the Fed sees additional progress toward low unemployment and stable inflation.

Inflation continues to remain a concern. At the end of the second quarter, the annual inflation rate as measured by the consumer price index was 5.4%, up from 2.6% in March. Rising input prices continue to plague manufacturers, as inflation in the producer price index reached 7.3% in June, up from 4% in March. Supply chain bottlenecks, increased shipping costs, and labor market shortages are not expected to ease until 2022, thus, inflationary pressure is likely to continue for another six months. Consensus forecasts for inflation, however, are consistent with Fed statements characterizing the current bout of inflation as transitory with inflation expected to recede to about 2.5% by 2023.

## Region Growth Likely to Slow

The Savannah area business forecasting index dipped 0.4% (-1.7% annualized) during the first quarter of 2021 following a

surge of 53% (annualized) in the opening quarter of the year. The index decreased to 156.8 from 157.5 in the previous quarter. The drop is explained primarily because of mixed results in the housing market and labor market.

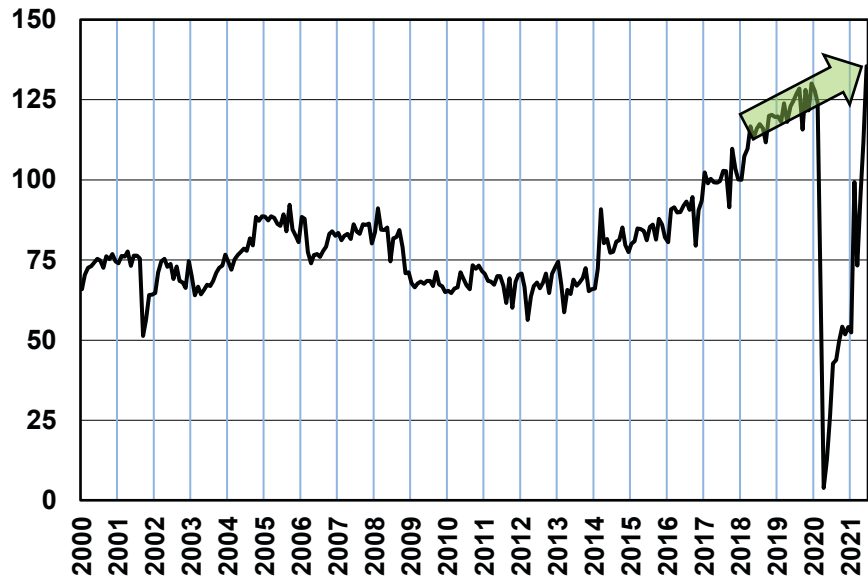
In the labor market, there was a slight, but unexpected, uptick (+0.3%) in the average number of monthly initial claims for unemployment insurance (UI). New claims for UI increased to 4,740 from 4,727 in the previous quarter. Nonetheless, the seasonally adjusted unemployment rate during the quarter fell to 4.2% from 4.6%. The unemployment rate was 11.9% in the second quarter of 2020.

In the housing market, the seasonally adjusted number of single-family homes permitted for construction increased 1.9%, rising to 579 from 569 units in the previous

quarter. The second quarter number is 11.2% higher than its year-ago level. The average valuation per single family unit, however, decreased 9.2% to \$249,300 from \$274,600. Note that the permit value does not reflect land costs of approximately 15% of permit value.

Near-term (six months) prospects for growth in the Savannah metro economy are favorable but remain modest. Regional employment is expected to match pre-pandemic level in the fourth quarter. Continued strength in the logistics industry, construction, and land development will support the regional economy. Future gains will depend, in part, on increased travel to Savannah and the continued recovery of jobs in the hospitality sector that could be negatively affected in the third quarter by spread of the delta variant of COVID-19.

## Boardings at SAV/HH International Airport Monthly (000)



Source: Savannah Airport Commission

## A Note From the Analyst

The *Economic Monitor* is available by email and at the Center's website ([GeorgiaSouthern.edu/parker/big/big-programs/cbaer/](http://GeorgiaSouthern.edu/parker/big/big-programs/cbaer/)). If you would like to receive the *Monitor* by email, please send a 'subscribe' message to [CBAER@georgiasouthern.edu](mailto:CBAER@georgiasouthern.edu).



## About the Indicators

The *Economic Monitor* provides a continuously updated quarterly snapshot of the Savannah Metropolitan Statistical Area economy, including Bryan, Chatham and Effingham counties in Georgia. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a short-term forecast of the region's economic activity in the upcoming six to nine months.



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